Sent with the Compliments of the First National Group of Banks in Minneapolis
Correspondent of The National City Bank of New York



THE NATIONAL CITY BANK OF NEW YORK

1929



# Economic Conditions
# Governmental Finance
# United States Securities

New York, December, 1929.

## General Business Conditions

THE termination of distress liquidation in the stock market has been accompanied by a better feeling generally on the part of the public towards business. As people have had opportunity to bring a calmer judgment to bear on what has transpired they are coming to realize that the prosperity of the country is not dependent upon the fluctuations of the stock market. This is not to say that the fluctuations in the market do not affect business, for it is a well known fact that they do, both psychologically and by affecting the purchasing power of a large number of people. Such fluctuations, however, are not the major influence in shaping the course of business. In the end the stock market must be guided by business and not business by the stock market. If the business situation itself is sound, as we feel it is, then business should have no need to fear a serious or protracted depression.

Even before the decline of stock prices, business was receding from the unusually high levels of the Spring and Summer, and doubtless the occurrences in the stock market will tend to intensify this decline. Loss of buying power on the part of many people will undoubtedly have its effect on various industries catering directly to the public, and the natural hesitancy induced by the severity of the market decline may temporarily affect some other lines as well. Obviously it is still too early to tell much about this, but admitting all these possibilities we are still unable to be gloomy over the outlook.

The essential fact, wherein the present differs from most periods of great stock market declines in the past, is that business itself is healthy and has not been involved in over-expansion with the stock market—which means that an attack of acute indigestion in securities, while it may cause business a severe headache, should not seriously cripple the patient. There is no collapse of commodity prices. There is no inventory problem. There is no breakdown of the banking system. There is no shortage of credit. There are no great business failures, nor are there likely to be. Our great corporations were never in better shape financially, or from the standpoint of manufacturing efficiency and skill of management. We would call the attention of our readers to a table which appears on a succeeding page showing the remarkable financial strength of the automobile industry which may be considered typical of the condition of industry generally today. Earnings during several years of prosperity have enabled bank borrowings to be reduced to a minimum or paid off entirely. Bonded indebtedness has been steadily retired through sinking fund operations and calling of entire issues for redemption. Cash and marketable securities have been built up. As a result, corporations, instead of being loaded with high priced goods and up to the hilt in debt, are lenders of funds in the money market. Nothing could illustrate more forcibly the great difference between the situation at the present time and that of 1920-21.

### The President's Conferences

The conferences which President Hoover has held in Washington with leaders in major fields of economic activity have done much to restore confidence by demonstrating the vast programs of industrial rebuilding and expansion that lie ahead. As the proceedings of these conferences were published daily in the newspapers there is no need for extended comment, except to call special attention to the significance of such programs as that announced by the railroads to spend \$800,-000,000 to \$1,000,000,000 on rolling stock and right-of-way during the next year, by the public utility systems to spend \$1,800,000,000 on new plants and distributing facilities, by States and municipalities to speed road building and other public improvements, and by industry generally to maintain wages and to take advantage of slack periods to carry forward needed betterments and enlargements.

As said in our November 1 issue, a large part of the business of the country is not immediately dependent upon buying by the general public, but on the maintenance and improvement of the industries, railroads,

169

telephone systems, light and power plants, and municipal properties. A month ago we referred to the important electrification projects under way by the Pennsylvania, the Reading and other railroads, and to the large expansion programs contemplated by the United States Steel and Bethlehem Steel companies. Besides these, additional projects that have been announced during the past thirty days include a new $25,000,000 plant at Detroit for the Great Lakes Steel Corporation, a $7,000,000 expansion program by the Weirton Steel Company at Weirton, W. Va., and a $40,000,000 expenditure by E. I. du Pont de Nemours & Company in adding to its chemical and rayon plants in Virginia. Undertakings such as these are remote from the stock market and will go forward regardless of its fluctuations. Their sponsors are not disturbed by prospects of a few months dip in business, for they know that the added facilities will soon be needed. Of far greater importance in shaping up a big construction program is the question of cost of capital and this is fast solving itself in a manner favorable to enterprise.

In addition to calling these conferences of executives, the Government has announced its efforts to maintain business stability by expanding the program of public construction and by recommending to Congress a reduction in income taxes next year. The Treasury Department's recommendation on tax reduction is for a one per cent cut in rates on both personal and corporation incomes, and was regarded favorably both as indicating confidence in the maintenance of current revenues, which implies continuance of prosperity, and as promising a release of funds from governmental to business purposes. The saving is estimated at $160,000,000 per year. The basis for the recommendation is the fact that for the current fiscal year through November 20 the total ordinary receipts of the Government were $119,000,000 larger than in the corresponding period of last year, while total ordinary expenditures were $107,000,000 smaller.

### Retail Trade Survey

This bank has made inquiry through representatives of The National City Company of the leading department stores in nearly fifty cities throughout the country as to the trend of sales during the first three weeks of November as compared with the corresponding period of last year. Information was furnished through the courtesy of one hundred and fifty-seven stores and is presented in the following table, arranged by geographical districts:

**Sales of leading department stores during first three weeks of November as compared with the corresponding period of last year. Store reports are given individually, and changes are expressed in percentages of gain or loss, or as unchanged (Unch.). Where a store reported a change but did not give the percentage it is indicated by the abbreviation Inc. (increase) or Dec. (decrease).**

| City and Store | Per Cent Change | | | | |
|---|---|---|---|---|---|
| **New England and N. Y.** | | | | | |
| Hartford, Ct. | + 1.0 | +15.0 | Dec. | | |
| Boston, Mass. | | | | | |
| 8 Dept. Stores | — 1.5 | | | | |
| 6 Apparel Shops | —15.5 | | | | |
| Albany, N. Y. | + 5.0 | Inc. | Inc. | Dec. | |
| Amsterdam, N. Y. | Inc. | —20.0 | | | |
| Binghamton, N. Y. | + 6.0 | — 5.0 | | | |
| Brooklyn, N. Y. | Inc. | +22.0 | — 5.0 | | |
| Gloversville, N. Y. | + 3.0 | | | | |
| New York, N. Y. | + 6.4 | Unch. | Inc. | Unch. | —10.0 |
| | Inc. | — 3.5 | + 1.7 | + 4.0 | Dec. |
| Rochester, N. Y. | — 9.6 | Unch. | +12.0 | — 5.2 | |
| Schenectady, N. Y. | Inc. | — 3.0 | + 5.0 | +10.0 | |
| Syracuse, N. Y. | +20.0 | — 0.5 | Unch. | | |
| Troy, N. Y. | Inc. | Inc. | | | |
| Utica, N. Y. | + 8.0 | + 3.0 | Unch. | | |
| **East Central** | | | | | |
| Washington, D. C. | — 1.5 | — 2.0 | Dec. | + 5.0 | Unch. |
| Indianapolis, Ind. | + 2.0 | + 5.0 | + 8.0 | — 4.0 | |
| Louisville, Ky. | Unch. | | | | |
| Baltimore, Md. | +13.7 | + 23.0 | — 5.9 | +20.0 | |
| Detroit, Mich. | + 9.0 | — 6.6 | —30.0 | —14.7 | —18.0 |
| | Dec. | | | | |
| Grand Rapids, Mich. | — 2.0 | — 6.3 | + 4.0 | — 9.0 | —18.6 |
| Cincinnati, O. | + 2.5 | | | | |
| Cleveland, O. | +12.0 | + 5.0 | + 1.2 | + 4.0 | |
| Columbus, O. | + 3.0 | — 5.0 | Dec. | Inc. | |
| Dayton, O. | + 7.7 | | | | |
| Allentown, Pa. | + 4.3 | | | | |
| Philadelphia, Pa. | Dec. | — 5.0 | Unch. | Dec. | Inc. |
| Pittsburgh, Pa. | + 2.7 | — 5.0 | — 5.0 | | |
| Wilkes-Barre, Pa. | +11.0 | — 1.1 | — 1.0 | — 6.0 | |
| Williamsport, Pa. | + 1.0 | | | | |
| Richmond, Va. | +32.0 | + 8.0 | | | |
| **Middle West** | | | | | |
| Chicago, Ill. | + 4.3 | + 7.0 | Unch. | | |
| Minneapolis, Minn. | Inc. | + 8.4 | Unch. | | |
| St. Paul, Minn. | Unch. | Unch. | + 5.0 | +2.7 | — 0.3 |
| Kansas City, Mo. | + 2.0 | Unch. | Unch. | Unch. | |
| St. Louis, Mo. | + 3.6 | + 8.0 | — 7.0 | +10.0 | |
| Milwaukee, Wis. | Inc. | + 1.5 | Inc. | | |
| **South** | | | | | |
| Atlanta, Ga. | + 2.0 | + 2.0 | Inc. | — 9.0 | Dec. |
| New Orleans, La. | — 5.0 | Unch. | + 1.0 | Inc. | Dec. |
| Memphis, Tenn. | Unch. | | | | |
| Houston, Tex. | +40.0 | | | | |
| **West** | | | | | |
| Los Angeles, Cal. | — 2.0 | — 2.0 | — 2.0 | Unch. | |
| Oakland, Cal. | + 5.0 | Unch. | +43.0 | | |
| San Francisco, Cal. | +18.7 | Unch. | + 2.0 | + 1.0 | —10.0 |
| | — 9.0 | +40.0 | | | |
| Portland, Ore. | + 4.0 | + 1.2 | + 6.7 | Inc. | |
| Seattle, Wash. | +16.7 | +20.0 | —10.0 | Inc. | Unch. |
| Spokane, Wash. | — 4.5 | — 5.0 | — 3.0 | | |
| Salt Lake City, Utah | Inc. | Unch. | — 8.0 | | |

Of the one hundred and fifty-seven stores that furnished information, eighty-two stores, or 52 per cent, reported increases over last year and fifty-three stores, or 34 per cent, reported decreases, while twenty-two stores reported sales practically unchanged. The increases for the stores making increases ranged from 1 to 43 per cent and (eliminating four stores that showed 30 per cent or more increase due to much larger floor space, additional departments, etc.) averaged 6.7 per cent, while the decreases ranged from 1 to 30 per cent and averaged 6.8 per cent. A summary of the showing by districts is as follows:

**SUMMARY OF DEPARTMENT STORE SALES**

| Geographical District | No. of Cities | No. of Stores | Number reporting: Increase | Decrease | Unchanged |
|---|---|---|---|---|---|
| New England and N. Y. | 13 | 43 | 25 | 13 | 5 |
| East Central | 16 | 51 | 24 | 24 | 3 |
| Middle West | 6 | 22 | 13 | 2 | 7 |
| South | 4 | 12 | 6 | 4 | 2 |
| West | 7 | 29 | 14 | 10 | 5 |
| Total | 46 | 157 | 82 | 53 | 22 |

A great many of the stores reporting decreases stated that the reason therefor was not the stock market break, but the unseasonable weather, although others admitted that their sales of higher priced and luxury articles had fallen off materially.

Actual dollar value of sales was not requested, but if it were assumed that the stores were all of approximately the same size and that all the percentage gains and losses (except the four stores showing special gains referred to) could be combined and given the same weight, the composite result would be a gain of one per cent. Without the dollar figures, it is of course impossible to measure this precisely, but from the statistics given the conclusion does seem justified that the unfavorable consequences to retail trade of the stock slump have not been as general as might have been supposed. Looking forward to the Christmas trade it is encouraging to know that Christmas club distributions this year will reach $600,000,000, a new high record, 10 per cent in excess of that of last year and more than five times the amount accumulated in 1920.

### The Metal Industries

Steel mill operations have been tapering off and are down to around 70 per cent of rated capacity, but this is partly seasonal and was to be expected following the unusually high rate that was maintained during the Spring and Summer. In the first ten months of the year the output of steel ingots amounted to 47,755,000 gross tons, a record which has never been equalled and was only 2,000,000 tons short of the output for the entire year 1928.

Buyers are reported to have become somewhat cautious since the stock market break, but the trade believes that this indicates only prudence and not pessimism. Demand from the automobile industry is lighter, but railroad purchases of rails and rolling stock are continuing very heavy. Awards of fabricated structural steel in the New York metropolitan district for strictly building purposes during October were 85,699 tons, as compared with 54,119 tons in September and 50,264 tons in October, 1928. Tentative orders for large tonnages of tin plate have been placed by the two leading can companies but this business will not be added to the books of the mills until specifications are received month by month next year. Demand for oil well and pipe lines and for shipbuilding continues large. Unfilled orders of the United States Steel Corporation at the end of October stood at 4,087,000 tons, which represented an increase of 184,000 tons in October following an increase of 245,000 tons in September, and was the largest on that date since 1925. Prices of finished steel have been under pressure but have not yielded to any considerable extent, although quotations on pig iron and scrap are slightly lower.

In the non-ferrous metal industries the price of copper has remained firm at 18 cents per pound, although prices of lead and zinc have recently slipped off fractionally. Production of copper has been successfully curtailed to the levels of consumption, and producers' stocks of refined metal have fallen slightly during the last two months. Moreover, it is reported on the best authority that stocks in the hands of fabricators as a whole are also at a low level. Domestic shipments of copper in the first ten months of 1929 show an increase of 24 per cent over the same period last year. Earnings of the non-ferrous metal mining companies for the year 1929 are expected to show substantial improvement over 1928.

Tin prices have suffered a severe break to around 39 cents per pound, which is the lowest in six years and compares with 52 cents a year ago. Production of tin has been burdensome and there are evidences of falling consumption. This will not affect American mining companies, for tin is produced principally in the Far East, although we consume about 55 per cent of the world's output.

Bituminous coal production during the current year to date has run 6 per cent ahead of 1928, reflecting the high activity of the steel and other manufacturing industries, and at this rate the full year's production would amount to 525,000,000 net long tons. Stocks in the hands of retail dealers and consumers at the beginning of the fourth quarter were estimated at 37,500,000 tons which are below normal for that time of year. Coal prices have been depressed for several years and earnings of the producing companies have been subnormal, although some reduction of cost is being accomplished through mechanization of mines. The coal associations have been attempting with some success to induce the consuming public to purchase its winter requirements during the summer months so as to permit a more uniform and therefore economical rate of operations throughout the year. Anthracite coal production for the year to date is slightly below last year and profits in this branch of the coal industry are also held below normal because of restricted demand and competition from fuel oil and coke.

### The Automotive Industries

Activity in the motor industry has undergone the normal seasonal decline and November production is estimated at around 200,000 vehicles, or slightly below November 1928. Because of the high rate of operations earlier in the year the figures now available for ten months show an output of 5,266,982 passenger cars and trucks, including Canadian plants, which contribute about 5 per cent of the total. In December the production on new models will be built up and the output is expected to be about the same as last year, which was 243,541 vehicles. Adding these estimates to the ten months' figures would indicate that production in the entire year 1929 will reach 5,700,000 units. This compares with 4,601,321 in the previous record year, 1928, and repre-

sents an increase of 1,100,000 cars, or 24 per cent, practically all of which is accounted for by the expansion in production of the Ford Motor Company. Nearly 45 per cent of all cars manufactured in October were Fords.

The gigantic size of the automobile industry and the relatively short space of time in which its growth occurred have made many people concerned as to its stability, but the past record of the industry shows that it has always been able to solve its own problems as they arose. In the midst of the stock market break the shares of leading motor companies were driven down severely under forced liquidation, and the public has not been fully informed upon the strong financial position of industry. A compilation of the assets of the leading companies, and particularly of the amount of cash and securities in their treasuries, makes a remarkable showing. The following table is made up from the last annual balance sheets of all motor companies of any importance publishing a report, numbering forty-one, of which twenty-one are named specifically, and shows cash, call loans and marketable securities aggregating in value $718,000,000. These cash assets make up 23 per cent of total assets which amounted to $3,063,000,000, as can be seen from the following figures for forty-one leading companies. Ford Motor Company included in its cash items securities, receivables, patent rights and trade marks. All companies excepting Ford had a ratio of cash assets to total assets of 19 per cent.

**FINANCIAL CONDITION OF PRINCIPAL AUTOMOBILE MANUFACTURERS**
**December 31, 1928 (000's omitted)**

| | Cash & Securities | Total Assets | Capital & Surplus |
|---|---|---|---|
| Amer. La France & Foamite Corp. | $ 615 | $ 14,971 | $ 8,705 |
| Auburn Automobile Co. (a) | 3,919 | 12,004 | 9,935 |
| Brockway Motor Truck Corp. | 667 | 11,058 | 7,129 |
| Chrysler Corporation | 50,370 | 226,845 | 120,554 |
| Durant Motors, Inc. | 5,051 | 35,088 | 26,423 |
| Ford Motor Co. | *275,927 | 688,909 | 599,894 |
| Franklin (H.H.) Mfg. Co. | 1,979 | 12,883 | 11,462 |
| General Motors Corp. | 215,905 | 1,242,895 | 858,463 |
| Graham-Paige Motors Corp. | 3,022 | 28,249 | 17,879 |
| Hudson Motor Car Co. | 20,015 | 68,237 | 55,982 |
| Hupp Motor Car Corp. | 15,101 | 32,699 | 27,912 |
| Mack Trucks, Inc. | 2,312 | 68,497 | 56,383 |
| Marmon Motor Car Co. (b) | 2,173 | 12,583 | 9,354 |
| Nash Motors Co. (a) | 41,245 | 63,519 | 52,024 |
| Packard Motor Car Co. (c) | 21,212 | 81,027 | 69,106 |
| Pierce-Arrow Motor Car Co. | 2,781 | 15,384 | 9,520 |
| Reo Motor Car Co. | 7,377 | 37,297 | 31,781 |
| Studebaker Corporation | 10,685 | 134,294 | 118,981 |
| White Motor Co. | 12,247 | 51,690 | 46,802 |
| Willys-Overland Co. | 11,043 | 87,059 | 69,774 |
| Yellow Truck & Coach Mfg. Co. | 2,260 | 40,870 | 35,061 |
| Other companies (20) | 12,053 | 97,068 | 71,854 |
| Total | $717,959 | $3,063,126 | $2,314,978 |

* Includes securities, receivables, patent rights and trade marks.
(a) 11-30-28 (b) 2-28-29 (c) 8-31-29

Capital and surplus is given also, to show the strong capital position of the motor industry. The forty-one companies for which reports are available have capital and surplus in excess of $1,000,000 each, and the aggregate net worth of the group is $2,314,978,000. This is 75 per cent of total assets and shows the large part of the business that is financed by the stockholders' investment and the relatively small part, about 12 per cent, that represents current or funded indebtedness to outsiders. The remaining excess of total assets over net worth and liabilities constitutes reserves of various sorts and miscellaneous items.

Net profits of this group of companies last year amounted to $336,733,000, and represented a return of 14 per cent on capital and surplus at the close of the year. For the first nine months of 1929 the available reports of sixteen automobile companies show combined net profits of $318,981,000, which was 2 per cent below the same period last year, but does not include Ford Motor Company, which had a substantial deficit in 1928 incident to the change in models.

Aside from this impressive picture of the financial strength and liquidity of the motor industry, a number of encouraging local news reports have come from the trade during the past month and show the general trend. Ford Motor Company announced a reduction in prices on all models, but this is not taken as indicative of a general price-cutting campaign, for Studebaker, Nash and Olds have announced moderate price increases. Ford Motor Company also announced that wages would be increased throughout its organization. Willys-Overland, after a temporary curtailment for changing models, has resumed operations with 7,500 men and expects by December 15 to have its force at the normal strength of 12,000. Chevrolet dealers in September and October sold 253,066 used cars as against 173,163 in the same period last year, a gain of 46 per cent, while sales of new cars also set a record for the period. Marmon reports a gain in 1929 retail sales of 50 per cent and a gain in unfilled orders of 25 per cent over this time last year. Packard Motor Car Company of New York states that between October 24 and November 15 it had twenty cancellations resulting from stock market conditions, which represented only 2 per cent of the business of the period and hardly supports the dire predictions heard as to the effect of the stock slump on the purchase of the more expensive automobiles. Finance companies have not yet noted any increase in delinquencies in payment on outstanding paper, according to *Automotive Industries.*

Industries allied with automobile manufacturing are completing also an unusually

active year. Makers of parts and accessories will as a group doubtless show a substantial gain in their 1929 profits, and the accessory industry has now become so important and diversified that some of the leading companies will make more money this year than the entire General Motors organization made ten years ago. Tire production points to a new high record of 60,000,000 casings of all types, and earnings should be substantial in spite of any writing down of inventory that may be necessitated by the decline in crude rubber prices in the last few weeks. Gasoline consumption this year will be 15 per cent larger than last year and will aid in the further recovery of earnings in the oil industry, although prices are still depressed from the heavy crude production which in 1928 amounted to 900,100,000 barrels and in 1929 will approximate 1,000,000,000 barrels. Since the first of October, however, real progress has been made toward curtailment and output for the country as a whole has been cut from 2,900,000 barrels daily to slightly over 2,600,000 barrels. Most of the reduction has taken place in the California and Oklahoma-Kansas fields, while Texas declined slightly and the combined total of the remaining fields is unchanged.

**Machinery**

Machinery and machine tool business is reported to be holding up well, and it has often been the experience of this industry that when general business activity has a temporary recession, machinery purchases result on the part of companies which take advantage of slack business for rearranging their plant layout. Office equipment and household appliances manufacturers have had a big year and while these lines, in common with others, have observed some slowing down of demand in the past month there are many types of equipment for home and office that save labor and expenses and whose sales therefore might be expected to be stimulated.

**The Building Industries**

Reference has already been made to the extensive list of important construction projects that have recently been announced and which will tend to offset the slump in apartment house and residential building that has been brought about by high money rates. Contract awards in November for residential building were less than half as large as in November, 1928. Including non-residential building, public works, and utilities, total contract awards in November were approximately $316,000,000 according to the preliminary figures of the F. W. Dodge Corporation, a leading statistical organization for the building industry. If December awards continue at this rate the total for the entire year 1929 will be in the neighborhood of $5,680,000,000, which is 14 per cent below last year and the smallest for any year since 1924.

Even with the restoration of normal mortgage money rates a revival of building may not take place immediately. Confidence must be present as to the general business conditions that will prevail next year and the rent situation must be given time to become stabilized. Savings banks have had unusually heavy withdrawals of deposits for use as additional margin with brokers and to purchase odd lots of stock outright, and these banks, therefore, have had to be sellers of bonds rather than buyers, and the building and loan companies are in a similar position.

Building costs have turned slightly downward as material prices weakened, particularly as regards common brick, certain lumber items, and structural steel, although increases in cement prices have just been announced. Considerable unemployment exists among building craftsmen, which in Chicago is said to be nearly one-half of the average number of workers and some unemployment is believed to extend throughout the country generally. In view, however, of the expected return of normal money rates and contract awards the situation is by no means unpromising, and F. W. Dodge Corporation, cited above, are predicting that the building total next year will show a moderate increase over that of this year.

**Food Products**

The food products industries are a group subject to minimum fluctuation, and tend to follow a normal growth of about 4 per cent annually. Reports from flour milling companies show that they have had a satisfactory year despite the rather erratic movement of wheat prices, against which they are accustomed to protect themselves by hedging. Leading bakery companies have enjoyed a steady expansion in earnings. The vegetable pack this year is expected to be 15 per cent larger than last year and for the three principal crops, canned corn, peas, and tomatoes, is estimated at 47,380,000 cases. This compared with the actual figures of 40,978,436 cases in 1928 as compiled by the National Canners Association and is the largest in history, with the exception of the 1925 pack, which was 61,906,000 cases. The ice cream, beverage, and candy industries continue to grow in importance and prosperity. Americans now spend $700,000,000 annually at soda fountains, according to the Chain Store Research Bureau, and the amount is increasing at the rate of $250,000,000 more each year at the counters for sandwiches and luncheons. Meat packing companies have had to operate the latter half of the year against falling prices for hogs, and to a lesser extent for cattle, due to the reduced corn crop and the heavier runs to

market, but this will mean less livestock available for breeding purposes and a recovery of prices later on.

In the tobacco industry the large companies manufacturing cigarettes will be benefitted by an advance in wholesale prices and a suspension of the price war that was started a year ago. Output of cigarettes continues its rapid rate of increase and for the full year 1929 will be in the neighborhood of 120 billion cigarettes compared with 105 billions in 1928 and 44 billions in 1919. Increase in cigar consumption has been much more moderate and for the first ten months was 2 per cent ahead of last year, while production of smoking tobacco, etc., has run practically constant. In the field of distribution the conditions are still somewhat unsettled, with some of the grocery and drug chains undercutting the prices of tobacco stores, and the latter branching out into the sale of general merchandise of various sorts.

### Textiles and Apparel

Activity in the textile industries has slowed down somewhat since the stock market break, due to declining prices for the textile fibres and caution on the part of buyers as to the future trend of general business. Production of cotton goods has again become somewhat excessive while shipments and sales have fallen, causing inventories to accumulate in the hands of mills and distributors although they are still slightly lower than one year ago. In order to promptly remedy the situation, manufacturers in New England and the South have announced a curtailment of approximately 25 per cent until the end of the year, or longer if necessary. Movement of woolen goods has been retarded by the mild weather but the trade is in a sound position as a result of the conservative operating policies, and sentiment is by no means pessimistic. Upon the arrival of colder weather a volume fully up to last year is anticipated. Activity in the men's clothing industry is reported as spotty with a tendency toward slowing down.

Style changes are always an important factor to be reckoned with in the textile trades and the fashion of longer and fuller dresses is naturally regarded as a development favorable to the industry, because of the increased yardage required. It should offset, to some extent at least, the unfavorable effect of hesitation in general business and weakness in prices of the raw textile fibres.

Competition between the principal textiles is a problem that has not been solved yet, for each one is working for a share in the market for popular light weight goods, and price changes immediately cause the demand to shift around between cotton, wool, silk, and rayon, especially toward the latter, the world production of which has increased from around 100,000,000 pounds annually a few years ago to about 475,000,000 pounds estimated in 1929.

### Railroads and Utilities

Railroad operations this year are heading for new high records in traffic and earnings. From the first of the year up to November 9 there were handled 46,678,086 cars of revenue freight, which is 3.54 per cent above the corresponding period of last year. Total freight and passenger revenues of the 180 Class I systems in the first nine months amounted to $4,775,112,965 as compared with $4,541,847,582, giving an increase of $233,000,000 or 5.13 per cent. Total operating expenses increased by only $68,000,000 to $3,414,375,651, and taxes showed a further increase of $24,000,000, leaving net operating income of $960,078,700. This compares with $820,572,952 in the first nine months and shows a gain of $140,000,000 or 17 per cent.

This represents an annual rate of return of 5.39 per cent on a valuation of $25,145,000,000 as of January 1, last, as compared with a rate of 4.66 per cent in the 1928 period. Reports covering the entire year, however, are not likely to maintain this rate due to the fact that carloadings in the past month have been declining and also because the figures for the nine months include an item of about $27,000,000 from the Government on account of back pay on mail contracts, which will not be recurrent.

Nevertheless the record of the railroads this year is one of which their managements can feel proud for the increase in earnings was accomplished despite lower average rates for both freight and passengers, and was due both to somewhat increased traffic during most of the year and to increased efficiency and economy of operation.

Gross earnings of ninety-five public utility systems, operating gas, electric light, heat, power, traction, and water services and comprising practically all of the important organizations in the United States amounted to $1,697,250,000 in the first nine months this year while net earnings were $731,500,000. In comparison with the corresponding period last year the gross increased 3.6 per cent and the net 17.5 per cent. This showing is particularly noteworthy when it is considered that rates charged for utility services have been repeatedly lowered and average 25 per cent below pre-war levels, at the same time that general commodity prices stand 40 per cent above pre-war and payments by the utilities for new plant construction, wages and taxes are at least double the pre-war rates.

## National City-Corn Exchange

In the October number of this publication a statement appeared concerning a proposed consolidation of the Corn Exchange Bank Trust Company of New York with The National City Bank of New York. The opening paragraph of said statement is reproduced herewith:

On September 19 announcement was made of a proposed merger of the Corn Exchange Bank Trust Company of New York with The National City Bank of New York, subject to approval by the stockholders of the two institutions of the terms which have been agreed to by the two directorates.

A statute of the United States (Act of February 25, 1927) prescribes the terms of consolidation of a bank organized under a State charter with a bank organized under the National bank act, and in order that there may be a clear understanding of all that followed in this instance we give a copy of the statute in full, as follows:

**Consolidation of State Bank with National Bank**

Sec. 3—That any bank incorporated under the laws of any State, or any bank incorporated in the District of Columbia, may be consolidated with a national banking association located in the same county, city, town, or village under the charter of such national banking association on such terms and conditions as may be lawfully agreed upon by a majority of the board of directors of each association or bank proposing to consolidate, **and which agreement shall be ratified and confirmed by the affirmative vote of the shareholders of each such association or bank owning at least two-thirds of its capital stock outstanding,** or by a greater proportion of such capital stock in the case of such State bank if the laws of the State where the same is organized so require, at a meeting to be held on the call of the directors after publishing notice of the time, place, and object of the meeting for four consecutive weeks in some newspaper of general circulation published in the place where the said association or bank is situated, and in the legal newspaper for the publication of legal notices or advertisements, if any such paper has been designated by the rules of a court in the county where such association or bank is situated, and if no newspaper is published in the place, then in a paper of general circulation published nearest thereto, unless such notice of meeting is waived in writing by all stockholders of any such association or bank, and after sending such notice to each shareholder of record by registered mail at least ten days prior to said meeting, but any additional notice shall be given to the shareholders of such State bank which may be required by the laws of the State where the same is organized. The capital stock of such consolidated association shall not be less than that required under existing law for the organization of a national banking association in the place in which such consolidated assocation is located; and all the rights, franchises, and interests of such State or District bank so consolidated with a national banking association in and to every species of property, real, personal, and mixed, and choses in action thereto belonging, shall be deemed to be transferred to and vested in such national banking association into which it is consolidated without any deed or other transfer, and the said consolidated national banking association shall hold and enjoy the same and all rights of property, franchises, and interests including the right of succession as trustee, executor, or in any other fiduciary capacity in the same manner and to the same extent as was held and enjoyed by such State or District bank so consolidated with such national banking association.

When such consolidation shall have been effected and approved by the comptroller any shareholder of either the association or of the State or District bank so consolidated, who has not voted for such consolidation may give notice to the directors of the consolidated association within twenty days from the date of the certificate of approval of the comptroller that he dissents from the plan of consolidation as adopted and approved, whereupon he shall be entitled to receive the value of the shares so held by him, to be ascertained by an appraisal made by a committee of three persons, one to be selected by the shareholder, one by the directors of the consolidated association, and the third by the two so chosen; and in case the value so fixed shall not be satisfactory to such shareholder he may within five days after being notified of the appraisal appeal to the Comptroller of the Currency, who shall cause a reappraisal to be made, which shall be final and binding; and the consolidated association shall pay the expenses of reappraisal, and the value as ascertained by such appraisal or reappraisal shall be deemed to be a debt due and shall be forthwith paid to said shareholder by said consolidated association, and the shares so paid for shall be surrendered and, after due notice, sold at public auction within thirty days after the final appraisement provided for in this Act; and if the shares so sold at public auction shall be sold at a price greater than the final appraised value, the excess in such sale price shall be paid to the said shareholder; and the consolidated association shall have the right to purchase such shares at public auction, if it is the highest bidder therefor, for the purpose of reselling such shares within thirty days thereafter to such person or persons and at such price as its board of directors by resolution may determine. The liquidation of such shares of stock in any State bank shall be determined in the manner prescribed by the law of the State in such cases if such provision is made in the State law; otherwise as hereinbefore provided. No such consolidation shall be in contravention of the law of the State under which such bank is incorporated.

The words "State bank," "State banks," "bank" or "banks" as used in this section shall be held to include trust companies, savings banks, or other such corporations or institutions carrying on the banking business under the authority of State laws.

It will be seen that the law is intended to carefully safeguard the rights of every individual stockholder of any bank participating in a consolidation. Not only must the terms of consolidation be ratified and confirmed by shareholders of each bank holding at least two-thirds of the outstanding shares of the institution, at a special meeting called for the purpose, but in the event of adoption of the proposal and resulting consolidation, further procedure is prescribed for the protection of the rights of any dissenting shareholder.

In the case of the proposed National City-Corn Exchange merger the directors of the two banks called upon the shareholders of the respective institutions, according to the formula of the law, to hold special meetings on November 7, 1929, for the purpose of acting upon the pending proposal. The meetings were duly held. At the Corn Exchange meeting holders of approximately 82 per cent of the outstanding shares were present or represented and voted for ratification. At the National City meeting less than two-thirds of the shares were represented, many proxies previously given having been rescinded before the meeting convened. The proposal agreed upon by the two directorates, having failed to receive the affirmative vote of both shareholding bodies, the plan of consolidation failed.

An explanation of this outcome is in order, especially in view of the attendant circumstances which gave the event a public interest.

The breakdown of the plan for consolidation, coming as it did in the midst of the excitement of a major crisis on the stock exchange and a heavy liquidation of credit incident thereto, was greatly magnified in significance. Baseless reports, rumors and surmises obtained, circulation, and as usual in such a time, the more sensational they were the more rapidly they circulated. This bank gave no attention to them during the excitement, but in this, the first number of its regular Monthly Letter to shareholders and patrons issued since the shareholders' meeting, the situation is reviewed for the information of all concerned.

The basis of the agreement between the directors of the two institutions for the proposed consolidation was that four-fifths of a share of National City stock should equal one share of Corn Exchange stock. The National City Bank was to issue its shares in exchange for Corn Exchange shares in this ratio, and the Corn Exchange assets and liabilities were to be taken over by the National City. If the agreement between the directorates had gone no further than to provide for this exchange of shares there is no reason to doubt that it would have been ratified by the National City shareholders.

However, another provision was included, in line with the provisions of the second paragraph of the United State Statute given above. As an alternative to the statutory relief afforded to dissenting minority shareholders, a more liberal provision was inserted in this plan, under which any Corn Exchange shareholder who for any reason might prefer to receive cash instead of National City shares, would have the privilege of doing so. This was to be accomplished by the inclusion of an agreement on the part of the National City Company, an organization affiliated with the National City Bank, to buy such Corn Exchange shares as might be offered in this manner, paying $360 per share, this privilege to be open 20 days, the period mentioned in the statute. The price fixed corresponded to $450 for National City shares, which was 45 points below the market when the agreement was reached and became 135 points below the highest price prevailing thereafter.

Before the date set for the shareholders' meetings a crisis developed on the New York Stock Exchange. This general crisis had no relation to the pending National City-Corn Exchange consolidation or to bank shares as a class, but in such a crisis the market prices of all shares inevitably are affected. Prices at such a time do not reflect a calculated appraisal of values; they reflect the imperative need of many holders for money to strengthen margined accounts, and it frequently happens that the best shares a debtor may have are sold to obtain relief. In a market catastrophe shares of all classes decline, but as a rule those which are most widely held by the public decline more than those closely held and in which transfers are comparatively few, this being the natural result of larger public participation.

All bank shares had a serious decline between the dates, October 1st and 2nd, when the proposed terms of consolidation were approved by the directors of the two banks, and November 7th, when their shareholders met —National City and Corn Exchange shares with the rest—and this decline radically changed the character of the proposed merger transaction. The essence of the plan was an exchange of National City shares for Corn Exchange shares and a merger not only of assets but of the shareholding bodies and of the going business of the two institutions. It was expected that the consolidated body of the shareholders of both institutions would be interested supporters of the enlarged institution. It was not in contemplation that the entire body of Corn Exchange stockholders was to be bought out. But when the National City shareholders met on November 7th the decline which had occurred in the market price of the shares of both institutions had created a situation in which it was practically certain that ratification of the proposal before them would involve an obligation to purchase all outstanding Corn Exchange shares within 20 days at $360 per share, and at an aggregate cost of $217,800,000. The market price of Corn Exchange shares on November 7th was $200 to $215 per share and of National City shares $295 to $310.

If it be said that the market convulsion was only a passing incident and that the real value of Corn Exchange shares was no less than when the proposal was agreed to by the two directorates, it remains true that the essence of the merger agreement was an exchange of shares and not the purchase of the Corn Exchange for cash.

United States law governs consolidations of this kind. Both parties understood that the action of the two boards of directors was but one step in consummating an agreement. Their action formulated a plan which had to be laid before special meetings of both bodies of shareholders for ratification or rejection, as these bodies, acting in perfect freedom, and in the light of all the conditions at the time their action was taken, might determine to be their choice. Both bodies of shareholders had until the time of voting to make their choice, and the National City shareholders exercised a right clearly established in the public law upon a sound principle of public policy. They made their decision because new conditions, which had developed since the two bodies of directors had formulated the plan, had made the plan

inequitable, inconsistent with the real purpose upon which the directors were agreed, impracticable of consummation, and against the public interest at the time.

In no sense or degree can the action of the National City shareholders be considered as an absence of confidence in or criticism of the official management or direction of the Bank. There is abundant assurance that the shareholders approved of the plan under the conditions which existed when the negotiations between the Boards were completed and the plan was prepared for submission. Proxies favorable to the plan were received from the holders of two-thirds of the shares, but after the new conditions had developed so many of these were withdrawn that less than two-thirds of the outstanding shares were represented at the meeting. No dissension has existed between the official management and the directors, or between the official management and directors on the one hand and the shareholders on the other. There has been no shadow of basis for any reports to that effect.

## Strength of the New York Financial Structure

Measured by the volume of shares sold and the rapidity and extent of the decline of prices, the crisis which developed in the stock market in the last week of October was the most serious ever known. For a time its demands upon the stock exchange organization and the banking resources of New York City greatly exceeded those of any similar crisis in the past. It is known that the Exchange and the banks came through the test triumphant, but it is not generally known how fully and completely they measured up to and above the extraordinary situation.

Only one brokerage house represented in the membership of the New York Stock Exchange, and this a comparatively small firm, with its head office located in another city, has been unable to meet its obligations, and in this case the receiver is reported as announcing that the assets will cover all debts to customers. Obviously this showing of strength among the brokerage houses means that the banks were in a comparatively safe position, inasmuch as their loans to brokers are protected not only by the shares pledged to the brokers by their borrowing customers, but by the additional margins exacted of the brokers. The successful manner in which the members of the Exchange weathered the storm was due to the cautious policy of requiring unusually strong margins and to the vigilant and effective supervision maintained by the authorities of the Exchange.

The brokers were the parties dealing with the greater part of the trading public, but back of the brokers were the banks, without whose resources and readiness to lend the extraordinary demands of the moment could not have been met. While the banks were in duty bound to protect themselves against serious losses, it was of the highest importance that ample funds should be available for the use of all parties willing to buy and able to give security. This primarily was the bankers' task.

A degree of confusion and uncertainty was injected into the situation by the great body of outside loans in the market, known in the classification of bank loans as "Loans for Out-of-town Banks" and "Loans for Others." It was to be expected that a large share or these loans, made on behalf of scattered lenders, located over this country and in foreign countries, themselves out of touch with the situation, would be promptly called when real trouble developed. It proved to be so. The peak of loans for the first group was at $1,831,000,000 on October 16, from which they dropped to $1,733,000,000 on October 23, $1,026,000,000 on October 30, and $704,000,000 on November 20, while the peak for the second group was at $3,941,000,000 on October 9, from which they dropped to $3,823,000,000 on October 23, $2,443,000,000 on October 30 and $2,031,000,000 on November 20. In the aggregate the loans of the two groups were reduced by $2,287,000,000 in the week ended October 30, and by $3,037,000,000 from the peak in the fore part of October to November 20. This was an uncertain and disturbing feature of the situation at first, but diminished in importance when it was found that the greater part of the funds thus recalled from the market were being left as deposits with the New York banks, thus remaining available for use.

Loans on securities of all reporting member banks of the system increased by $1,492,000,000 in the week ended October 30, of which $1,200,000,000 was in the member banks of New York City. The shifting of these outside loans is reflected in the rise of loans on securities by all reporting member banks in the week ended October 30, by the sum of $1,492,000,000, of which $1,200,000,000 was in the member banks of New York City. The difference between these figures and the totals of these outside loans given above represents loans cared for outside of the member banks of the Reserve system, and those reduced by payments or liquidated through sales.

The unprecedented volume of transactions, the rapid decline of prices, the great aggregate of values involved, the shifting of loans as indicated above, all contributed to the complexities and difficulties of the situation. It was of the utmost importance that every part of the machinery of the market should function to perfection, without failure, delay or disorder.

No market ever was put to such a test of facilities and resources before.

In view of the necessity for organization to supervise and safeguard the situation and primarily to assure an expeditious and orderly handling of the tremendous volume of transactions, a voluntary committee representing the banking institutions was formed. However, the mere provision of facilities for trading was not enough in itself to prevent the disorder which is the most demoralizing feature of heavy liquidation. It was important that the market should be steadied in the decline, the wide breaks narrowed and that a buyer at some price should be ready for every offer of the pivotal issues. The market could not be left wholly to unorganized, volunteer buying, which in time of evident panic is likely to hold off for still lower prices. In short a rear guard action was necessary to protect the retreat.

A pool was formed with an important sum at its command, furnished by subscription. It was not intended to attempt to stop the decline of prices, but to give a degree of regularity and order to the movement, to minimize the spread of alarm and encourage investment buying. No stocks were bought for the account of any bank, stocks being ineligible as bank investments, but affiliated security companies, authorized to deal in stocks as well as bonds, participated. The pool functioned cautiously but helpfully, without at any time using one-half of its fund. It is not liquidated, but in view of the character of the stocks held there is reason to believe that at the end the loss, if any, will be small. Of course, the venture was not a profit-seeking one. If it had been of that character, operations naturally would have been postponed until prices were lower than they were when the pool began buying. The action was prompted wholly by the purpose to allay the excitement of the moment, restore normal conditions in the market, stop the needless sacrifice of values and prevent the injury to all business which usually results from a major crisis.

As already indicated, the situation was greatly simplified and eased by the fact that in large part the funds which had been loaned in the market on behalf of "out-of-town banks" and "others," although called on behalf of the owners, were left in the New York banks. As a rule the latter individually took over the loans of this character which they had made. The situation would have been made much more difficult if, as in the market crises prior to 1920, there had been heavy withdrawals of cash from New York. Nothing of this kind occurred. This was distinctly a stock market crisis and not a banking crisis. No evidence appeared of uneasiness among bank depositors.

Money rates tended downward as lower prices in the market reduced the aggregate of loans required, and inasmuch as the lower basis for loans made them more secure, the required margins were reduced. At no time during the crisis were interest rates above 6 per cent, another novelty in the phenomena of crises.

Of course, the Federal Reserve Bank of New York was an important factor, both for the money it loaned directly—approximately $139,000,000—and for the additional Reserve credit which it supplied by purchasing United States Government bonds — approximately $141,000,000. It should be understood that these sums in the form of reserve credit for the member banks enabled the latter to lend a much larger amount.

The record of the New York banks in the crisis reflects nothing but credit upon the banks themselves, upon New York as the leading security market of the world, and upon the United States, whose natural resources and unrivaled industries are the basis of the securities.

It will be of special interest to the shareholders of The National City Bank of New York to know that this institution held an impregnable position throughout the crisis. With the same high percentage of liquid assets to deposit liabilities as has been maintained throughout in recent years and regularly disclosed in the reports called for by the Comptroller of the Currency, and with no indebtedness at the Reserve bank when the crisis began, it passed through the two months of October and November borrowing at the Reserve bank upon only two days—October 11 and 29—the first of which was two weeks before the crisis began. It has borrowed nothing since October 29.

This record does not signify that the National City was not doing its full share to support the situation in the crisis. It signifies only that the Bank had its resources well in hand for any emergency. It took over all of the loans for out-of-town banks and "others" which had been placed through it and which were called, and refrained from any action not in harmony with its policy of cooperation in support of the general situation. It called no street loans during the crisis.

So far as known, the Bank has suffered no losses resulting from the crisis, but if any shall develop it is certain that they will be amply covered by its regular contingent reserve. There is no reason for thinking that any of the banks have suffered considerable losses upon stock exchange loans, but it is not improbable that losses indirectly due to market losses, will be encountered. They are not likely to be of importance in the general situation. Liquidation in the stock market is

much more expeditious and complete than in commodity markets.

In view of the fact that The National City Company was one of those participating in the financing of the Banking Group's purchases in the market, it is pertinent to add that the Company entered the panic period with no more than normal inventories, and in spite of the events of the month it has no indebtedness to banks, other than The National City Bank, where its borrowings are considerably within the limit fixed by the National Banking Act upon loans to a single borrower.

**The Use of Federal Reserve Credit**

In this connection it will be of further interest, as bearing on the use of Federal Reserve credit, to have a record of the number of days in each month of the present calendar year upon which The National City Bank of New York was a borrower at the Reserve bank. The record is given below:

**NUMBER OF DAYS FROM JANUARY 1 TO NOVEMBER 30, 1929, UPON WHICH THE NATIONAL CITY BANK OF NEW YORK WAS BORROWING OF THE RESERVE BANK**

| | Days |
|---|---|
| January | 11 |
| February | 5 |
| March | 14 |
| April | 5 |
| May | 4 |
| June | 10 |
| July | 24 |
| August | 13 |
| September | 11 |
| October* | 2 |
| November | 0 |
| Total in 334 days | 99 |

*October 11 and 29.

These figures show that the National City Bank was entirely out of the Reserve Bank more than two-thirds of the time from January 1 to November 30, and from this an experienced banker will understand that it was making use of Reserve credit only to stabilize its own credit services to the public. The deposits of a bank—which constitute the source of its loans to the public—undergo considerable fluctuations from time to time, due to seasonal or other general causes or to conditions peculiar to the locality or affecting some of its important patrons. It is a common thing for a member bank's reserve to be drawn down below the legal minimum by temporary deposit fluctuations which soon correct themselves. Also the demands upon a bank by its customers for credit accommodations are subject to variations. If a bank was obliged to deal with these varying conditions in both supply and demand without recourse to resources outside of itself, its service to the public would be impaired by irregularity on account of adjustments in the volume of its loans which it would be under the necessity of making. The National City uses the Reserve bank as a means of maintaining its reserve position with the minimum of disturbance to that portion of the public accustomed to look to it for credit accommodations. It does not use Reserve credit continuously, but intermittently, making it a point when in to get out as soon as practicable in order to recover the elasticity of capacity which is lost if borrowing is permanent.

All of this is in full harmony with the accepted theory of central bank practice. It furnishes ideal employment for reserve funds, thereby affording earnings to the Reserve banks, and these day to day loans to member institutions for the adjustment of their reserve positions are the most liquid loans they can have. It is apparent also that the practice as applied to the entire banking system has the effect of materially increasing the available supply of credit. The peaks of demand are shifted to the Reserve banks, hence the member banks are enabled to make more effective use of their own funds, just as occasional recourse to bank credit enables a business firm to use its own funds to increased advantage. In other words, the practice economizes credit, thereby tending to lower interest rates and increase the efficiency of the banking system.

W. R. Burgess, Assistant Reserve Agent of the Federal Reserve Bank of New York, in his book, "The Reserve Banks and the Money Market," describes in detail the useful part in this respect which the Reserve Bank of New York plays in the money market*. A few sentences are quoted to show the tenor of the discussion:

> The New York money market is the national market for surplus funds. As the leading money market of the country, it is the center towards which the idle money of all sections gravitates to find employment, pending the time when it is needed. * * *
>
> In these days of keen competition and narrow margins of profit, banks and business concerns find it necessary to keep their funds as fully employed at interest as possible. Ten million dollars lying idle for a single day costs as much as a year's work of a clerk or about 300 clerks for one day; and the difference between profit and loss may be found in keeping all available funds employed. The money market provides a place where funds may be put to work for a week or even a day and still be available to meet the foreseen or the unforeseen needs of the lending bank or corporation.
>
> Since the New York money market employs funds from all parts of the country, it reflects changes in the need for funds from any quarter. Increases in the use of funds for business and trade draw funds from the New York market, and decreases in such use pour funds into the New York market. * * * In recent years the New York market has reflected not only the changing financial needs of agriculture and business in this country, but has reflected foreign conditions as well because considerable amounts of foreign funds have found employment here.
>
> * * * The country's financial stability depends not a little on the capacity of the money market for making a smooth adjustment to the new condition when extra supply or extra demand begins to appear. * * *

*Chapter VII, "The New York Money Market," pp. 110-125.

The New York City banks are bankers for the money market. The market keeps its funds on deposit with them. When a dealer secures funds he deposits them in one of these banks. When he makes a payment he does it with a check on one of them. The deposits of New York banks thus constantly reflect money-market operations.

Any extra demand for or supply of funds is thus registered in one way or another in the condition of the New York banks, and the elasticity and stability of the market depend on the reserves of these banks.

Elasticity Before 1914.—In the days before the Federal Reserve system the surplus reserves of New York banks were the best measure of the country's ability to deal with any financial emergency, because they showed the extent to which the money market could be drawn upon to meet needs for funds in any part of the country. * * *

Elasticity Today.—The fundamental change which the Federal Reserve system has made in this situation is to shift much of the burden of meeting the fluctuations in the demand for credit from the reserves of the member banks to the Reserve Banks, which through the strength of their holding of pooled reserves and through their power of note issue and deposit expansion can provide almost any extra funds required.

The following extract from a discussion of the use of reserve credit is from the annual Report of the Reserve Board for the year 1926:

In general, the basis of credit to be extended by a reserve bank to its member banks is defined in section 4 of the Federal Reserve act, which states that the board of directors of a reserve bank shall "extend to each member bank such discounts, advancements, and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks." * * * Even where the paper is unexceptional in every respect, the reserve bank must be fully assured in addition that further credit may be granted to this member, not only "safely and reasonably," but also "with due regard for the claims and demands of other member banks." This question arises not infrequently in cases where a member bank remains continuously in debt to a reserve bank for a considerable length of time. In such cases inquiry may fairly be made as to whether the member bank's use of reserve bank credit does not in effect amount to increasing its own capital out of reserve bank funds. Such use of funds arising from a cooperative pooling of bank reserves, which is the basis of the Federal reserve bank's lending power, would not be in accordance with the spirit of the Federal reserve act and would not be fair to the other member banks which may be active competitors of the borrowing bank. * * * Though there are circumstances that may explain and justify continuous borrowing by a member bank over a considerable period of time, particularly if the need for the borrowing arises from general economic conditions in the borrowing bank's locality, the funds of the Federal reserve banks are primarily intended to be used in meeting the seasonal and temporary requirements of members, and continuous borrowing by a member bank as a general practice would not be consistent with the intent of the Federal Reserve act.

Referring to the borrowings of the National City Bank in 1929 as shown above, it will be seen that they were most frequent in months when by reason of corporation payments for interest and dividends and income tax payments, funds are heavily withdrawn from New York for account of the rest of the country. January 1st is also a general settlement date, which occasions a disturbance of funds for some time. March 15 is the date for the first payment of income taxes and April 1 is a common date of interest and dividend disbursements. June 15 is another tax date and July ranks next to January for interest and dividend disbursements. This year the pressure for funds in June and July was exceptionally strong on account of new capital issues by numerous corporations upon which payments had to be made at that time. These were legitimate calls for the temporary use of bank credit. In January the National City was in the Reserve bank on each day until the 14th, then out to the 29th and 30th, in on February 4th, then out to the 14th, after which it was in for three more days, and so on. In June it was in on the 4th, out to the 11th, then out to the 21st, when it remained in for the longest period of the year.

The practice of other banks of New York City and of all important financial centers corresponds to the foregoing and is a necessary practice in order that credit service may be rendered with uniformity and without an unnecessary restriction of the country's credit facilities.

There is indubitable evidence that the New York member banks have not been increasing their use of Reserve credit during the period of general credit expansion, and particularly the last two years. On the contrary, they have been using Reserve credit less in recent months (excepting the period of crisis) than in 1927, and less in proportion to their resources than the banks of other cities.

The following table shows the average use of Reserve credit by the New York members as shown by the first two Reserve statements of October 1927 and October 1929, with average loans and investments of these banks in both periods, percentage of the former to the latter, and corresponding figures for the member banks of other cities, as given by the Reserve reports:

**NEW YORK CITY MEMBERS**

**(000,000 omitted)**

| Average first 2 weeks Oct. | Borrowings | Loans and Investments | Percentage to Loans and Investments |
|---|---|---|---|
| 1927 | $97 | $6,666 | 1.5 |
| 1929 | 56 | 7,513 | .7 |
| | **Other Cities** | | |
| 1927 | 205 | 14,265 | 1.4 |
| 1929 | 586 | 15,237 | 3.8 |

The last Federal Reserve statement before the sharp market break—as of October 23—showed the New York group, with loans and investments aggregating $7,619,000,000, borrowing only $41,000,000.

Corroborative evidence to the same effect is to be found in the statement of loans to brokers and dealers, made by the New York City group, classified into those made for their own account, for out-of-town banks and for others,

as shown by the second statements in October of 1927, 1928 and 1929:

| | 1929 | 1928 | 1927 |
|---|---|---|---|
| For own account | $ 973,000,000 | $ 867,000,000 | $1,093,000,000 |
| For out-of-town banks | 1,799,000,000 | 1,715,000,000 | 1,333,000,000 |
| For others | 3,941,000,000 | 2,008,000,000 | 967,000,000 |
| Total | $6,713,000,000 | $4,590,000,000 | $3,393,000,000 |

It will be seen that the total of these loans increased from $3,393,000,000 in October, 1927, to $6,713,000,000 in October, 1929, while the loans for account of the New York City member banks declined from $1,093,000,000 to $973,000,000.

These figures afford conclusive proof that the New York banks have not been increasing their loans in the stock market over the last two years or drawing upon Reserve credit for that purpose.

## Money and Banking

Reflecting the collapse of stock speculation and wholesale release of credit by the security market, the money situation has been moving rapidly towards normal. Already money rates, both in this country and abroad, have shown a substantial reduction, and strong probability exists that further easing is in prospect.

Extent of the liquidation in brokers' loans and the part played by the New York Banks during the critical period of the stock market break are matters already covered in preceding paragraphs.

Reflection of the extraordinary character of the banking operations during the past month appears also in the following table comparing the principal items of condition of the weekly reporting member banks of New York City on October 23 just prior to the crisis, on October 30 when the crisis was at its height, and on November 20, the latest available date.

(000,000 omitted)

| | Oct. 23 | Oct. 30 | Nov. 20 |
|---|---|---|---|
| Loans and Investments—total | $7,619 | $9,010 | $8,215 |
| Loans—total | 5,899 | 7,191 | 6,215 |
| On securities | 3,005 | 4,205 | 3,105 |
| All other | 2,894 | 2,986 | 3,110 |
| Investments—total | 1,720 | 1,819 | 1,999 |
| U. S. Government securities | 947 | 990 | 1,129 |
| Other securities | 773 | 829 | 870 |
| Reserve with F. R. Bank | 739 | 982 | 903 |
| Net demand deposits | 5,298 | 6,851 | 6,183 |
| Time deposits | 1,257 | 1,257 | 1,237 |
| Government deposits | 37 | 36 | 16 |
| Borrowings from F. R. Bank | 41 | 170 | 33 |

Perhaps the most striking feature of the table is the increase of $1,391,000,000 shown in total loans and investments between October 23 and October 30. Of this increase, approximately $1,200,000,000, or 86 per cent, represented an expansion of loans on stocks and bonds, thus measuring the extraordinary weight of the demands which fell upon these banks, largely as a result of the wholesale calling of loans by these so-called "other" lenders.

Reflecting the action of these "other" lenders in converting their loans back into bank deposits and of the banks in substituting their own loans for these credits, deposits likewise showed an enormous expansion. Thus in the week of October 30 net demand deposits increased by the unprecedented sum of $1,550,000,000, carrying the total far in excess of any levels ever reached before.

Since banks are required by law to maintain certain specified reserves against deposits, this expansion was reflected in a need for increased reserve deposits at the Federal Reserve Bank of New York, as indicated in the table. These in turn were provided partly through an increase of direct member bank rediscounting at the Reserve bank, as likewise shown above, and partly through the purchase of Government securities in the open market. During the final week of October such purchases by the New York Reserve bank alone amounted to $141,000,000, and by the System as a whole to $157,000,000.

It is safe to say that nothing comparable to the size of these transactions has ever happened in the money market before.

### The Crisis Passed

With the passing of the final week of October the most serious difficulties for the money market were surmounted. Since then the decline in brokers' loans has continued, it is true, at an extraordinarily rapid rate, but the movement has been more orderly and has reflected the steady absorption of stock by genuine investment buying. There has been no more panicky calling of loans, necessitating further first aid measures by the New York banks. On the contrary, brokers' loans by these banks for their own account have been steadily declining, and on November 20 were down to levels somewhat lower than at any previous time in recent months.

As brokers' loans have been reduced, the other items of the member bank statement shown in the table are likewise assuming a more normal appearance. Total loans on securities, which include loans to brokers as well as those to individual borrowers on collateral, after rising from $3,005,000,000 on October 23 to $4,205,000,000 on October 30, were back to $3,105,000,000 on November 20.

That the total volume of member bank credit outstanding in this city has failed to show a corresponding reduction between the October 30 peak and November 20 is due in part

to a rise in loans other than those on securities, and in part to a condition of extreme ease prevailing in the New York money market as a result of continued large purchases by the Reserve banks of Government securities. These purchases, by putting reserve funds into the market, have facilitated the reduction of rediscounts to levels lower even than before the panic, provided the basis for an expansion of deposits, and enabled the banks to considerably increase their own investments, thus offsetting in part the reduction in their loans on securities.

### The Decline of Money Rates

The liquidation in the stock market, combined with the shift of Reserve bank policy from tight to easy money, has resulted already in a marked change in money rates.

On November 1 the rediscount rate of the New York Reserve bank was cut from 6 to 5 per cent, and on November 15 from 5 to 4½ per cent. On November 21 and 22 the Boston and Chicago Federal reserve banks respectively followed the lead of New York in announcing reductions from 5 to 4½, but other regional Reserve banks have thus far held to 5 per cent. It is to be noted that notwithstanding the decided ease of money prevailing in New York, the volume of member bank rediscounting at a number of the regional Reserve banks is still at relatively high levels. If comparison is made of member bank rediscounting in New York alone and for the rest of the country, as illustrated in the accompanying table, it will be seen that whereas New York City banks are almost completely out of debt at the Reserve bank, the volume of rediscounting for the rest of the country taken as a whole is still close to the highest level of the year.

**REDISCOUNTS AND ADVANCES**
(In Millions)

| 1929 | New York City | Outside | Total |
|---|---|---|---|
| January 2 | $399 | $752 | $1,151 |
| February 6 | 114 | 738 | 852 |
| March 6 | 196 | 793 | 989 |
| April 3 | 135 | 895 | 1,030 |
| May 1 | 157 | 829 | 986 |
| June 5 | 123 | 854 | 977 |
| July 3 | 341 | 784 | 1,125 |
| August 7 | 295 | 769 | 1,064 |
| September 4 | 217 | 829 | 1,046 |
| September 11 | 159 | 814 | 973 |
| September 18 | 142 | 792 | 934 |
| September 25 | 147 | 797 | 944 |
| October 2 | 63 | 868 | 931 |
| October 9 | 46 | 811 | 857 |
| October 16 | 49 | 800 | 849 |
| October 23 | 41 | 755 | 796 |
| October 30 | 170 | 821 | 991 |
| November 6 | 135 | 856 | 991 |
| November 13 | 40 | 931 | 971 |
| November 20 | 33 | 867 | 900 |

Ordinarily a change in money conditions at New York is quite promptly reflected at interior points, as banks shift balances to and fro in order to avail themselves of the best rates obtainable. That this readjustment has been delayed in this instance is doubtless due in part to the fact that for some time banks in the interior have had relatively little of their own money invested in the call money market. Hence with the fall in rates they have not made the withdrawals which were the usual means of translating an ease of money in New York to the interior. Should the ease here continue, however, as seems likely, it is bound to find reflection sooner or later in other districts.

In the Stock Exchange money market, call funds have been in over-supply on recent dates, and after ruling at 6 per cent during the first half of the month declined to 4½ per cent for the first time since April, 1928. Time loans have likewise been declining rapidly, closing the month at 5-5¼ per cent, as against 9-9¼ only two months previously.

With the cut in official discount rates, bank over-the-counter rates to commercial borrowers are easing and open market rates for prime paper are down to 5-5¼ as against 6-6¼ in October.

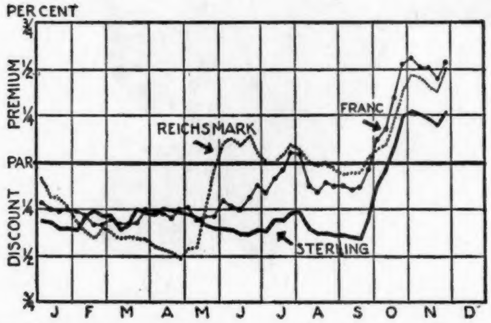
In the bill market 90-day prime bills are offered currently at 3⅞ per cent as compared with 5⅛ per cent in the early part of October, and the lowest level since early in 1928. Demand for bills has been particularly keen since the stock market break, due to a tendency on the part of many lenders to switch funds previously employed in stock market loans into bills. Notwithstanding that the volume of acceptances outstanding in this market at the end of October, as reported to the American Acceptance Council stood at $1,541,000,000, a new high record of October, $419,000,000 in excess of the total in October of last year, the supply of bills in the hands of dealers continues exceedingly small. Reflecting also the scarcity of bills, holdings by the Reserve banks, which are usually expanding at this season, have gone off by nearly $100,000,000 since October 23, and at $284,000,000 on November 20 were approximately $200,000,000 lower than on the corresponding date a year ago.

### Improvement Abroad

Abroad, money conditions are still generally tight, but with the liquidation in our stock market and repatriation of foreign funds the situation in most countries is improving. Central banks, which have been forced reluctantly to impose higher rates on home industries during the past year in order to protect their reserves from being drawn into the American stock market, are losing no time in commencing a downward revision now that the menace from this quarter has been removed.

On October 31, or shortly after the first wide open break in the New York stock market, the Bank of England led off with a re-

duction in its rediscount rate from 6½ to 6 per cent. It will be recalled that the higher rate had been established on September 26. Whether due largely to this action, or to British withdrawals of funds from this market in connection with the Hatry failure in London, or a growing lack of confidence in our market, or to all three factors, there was evidence of a substantial outward movement of funds from this country practically from that date, and by the time the stock market crash came most of the European currencies were at or close to the gold point. Graphic illustration of the suddenness of the reversal in the international flow of funds appears in the following diagram comparing the course of British, French and German exchanges during the past year in percentages of difference from par.




**Weekly Average Discount or Premium on British, French and German Exchanges During 1929**

Following the first reduction by the Bank of England rate, came reductions in rapid succession by the central banks of Netherlands, Germany and Hungary. On November 15 the New York Reserve bank rate was reduced to 4½ per cent, to be followed in the succeeding week by a further reduction in the British rate to 5½ per cent. Altogether nine foreign central banks have announced one or more cuts of rate since the stock market break, in amounts and on dates as indicated in the following table:

| | | | |
|---|---|---|---|
| October | 31 | Bank of England | 6½ to 6 |
| November | 1 | Bank of Netherlands | 5½ to 5 |
| | 2 | German Reichsbank | 7½ to 7 |
| | 4 | National Bank of Hungary | 8 to 7½ |
| | 13 | National Bank of Belgium | 5 to 4½ |
| | 15 | Bank of Netherlands | 5 to 4½ |
| | 15 | Bank of Poland | 9 to 8½ |
| | 21 | Bank of England | 6 to 5½ |
| | 21 | Bank of Norway | 6 to 5½ |
| | 22 | National Bank of Austria | 8½ to 8 |
| | 25 | National Bank of Rumania | 9½ to 9 |

With prospects of further easing of money in the United States, it seems reasonable to anticipate a progressive betterment of the situation abroad as well. Nevertheless, foreign monetary authorities doubtless will proceed with caution in the matter of rate reductions, and thus far the rate cuts that have been put into effect have been smaller than in New York, so that the differential between their markets and ours has even been increased somewhat. One interesting question having to do with foreign discount rates is the extent to which foreign investors will continue in our market. Since the break in stock prices there has been considerable evidence of an inclination on the part of many such investors to re-enter this market at the lower levels prevailing.

Thus far the outward movement of funds has not resulted in much loss of gold to the United States, as foreign central banks have been more interested, on the whole, in securing the benefits of lower interest rates for home industries than in adding immediately to their gold stocks. Some gold, however, has gone out, as indicated by net exports and earmarkings amounting to $26,000,000 for the month of November, according to the Federal Reserve Bank of New York. This loss, is significant as marking the first month in which the United States has had an unfavorable balance in the gold movement since January of this year.

The outstanding fact from a world-wide standpoint that emerges from the past month is that the breakdown in the Wall Street boom eliminates a most important obstacle to monetary stability, and clears the way for a speeding up once more of the work of financial reconstruction. Not only do the easier conditions here mean that the drain of European funds to this market will be stopped, but it affords the possibility that funds from this country may flow abroad again through a revival of foreign bond financing in this market. If this proves to be the case, the enhancement of foreign purchasing power resulting therefrom should be an important factor in maintaining and expanding our export trade.

# Their Future...

# ...in Your Hand

YOU are the safeguard of their present. Through the changes made by births and marriages and deaths, through the ebb and flow of business fortunes, your experience and foresight give them guidance now. But what of the changes the future will bring, when they no longer have your judgment as their aid and counsel? It is in your hands now to arrange for your family's future that constant supervision and steadfast protection which you yourself provide today.

The First Minneapolis Trust Company, ever adjusting itself to fit the changes of the times, is admirably equipped to give your family that guidance and protection. Long continued corporate existence, broad contacts with all the phases of business—these assure the safety they must have. And, with its long experience in fiduciary work, the First Minneapolis Trust Company has within itself all those qualities which you would ask in the ideal executor and trustee.

## FIRST NATIONAL GROUP

RESOURCES OVER $155,000,000

**ST. ANTHONY FALLS OFFICE**
*East Hennepin at 4th Street*

**WEST BROADWAY OFFICE**
*West Broadway at Emerson*

**NORTH SIDE OFFICE**
*Washington at West Broadway*

**HENNEPIN STATE BANK**
*Hennepin and Washington Avenues*

**FIRST NATIONAL BANK**
THE OLDEST BANK IN MINNEAPOLIS—ORGANIZED 1864

**FIRST MINNEAPOLIS TRUST COMPANY**
ORGANIZED 1888

**FIRST MINNEAPOLIS COMPANY**

**MINNEHAHA NATIONAL BANK**
*27th Avenue South at Lake*

**PRODUCE STATE BANK**
*1st Avenue North at 7th Street*

**BLOOMINGTON LAKE NATIONAL BANK**
*Bloomington at Lake*

*Affiliated with*

**FIRST BANK STOCK CORPORATION**

End